

STERLING INVESTMENTS LTD. MANAGEMENT DISCUSSION & ANALYSIS Q1 2019

Economic Overview

International

Global markets rose considerably in the first quarter of 2019, consistent with the Investment Committee's prediction. In the first quarter of 2019, the S&P 500 increased by 13.7% and the Dow Jones increased by 11.8%. U.S. 10-year treasury yields fell by 24 basis points over the quarter (their lowest level since late 2017). The risk on sentiment in the quarter led to attractive returns in the high yield and investment grade corporate credit bond market.

The rally followed the Federal Reserve's (Fed) dovish stance and its commitment to pause on interest rate hikes during 2019. This caused a temporary inversion of the yield curve which further supported higher prices of fixed income assets. The market's expectation of an amicable conclusion to the U.S.- China trade tensions also drove prices higher. U.S. GDP for Q4 2018 was 2.2%. Towards the end of the quarter, the Fed lowered its projections for US growth and inflation and reduced its expectations for interest rates hikes. The next rate hike is projected for 2020, with some pundits predicting a rate cut may be warranted before then.

In European bond markets, 10-year Bund (German government bond) yields declined by more than 30bps and fell below zero toward the end of March for the first time since October 2016. European economic data weakened further through the quarter, particularly for the manufacturing sector. The Eurozone grew by 0.2% in Q4 2018. Germany saw no growth while Italy fell into a recession.

Oil had its strongest 1st quarter performance since 2002 due to reduced supply and improved signs for the global economy. WTI increased by 32% in Q1 2019 and Brent increased by 27%.

Local

During the first 3 months of 2019, the Bank of Jamaica sold US\$ 100 million into the local currency market. These interventions reduced the JMD liquidity and caused a 1.0% appreciation in the JMD/USD (which moved from 127.72 to 126.47). During the period, the exchange rate rose as high as \$137.21 in February and fell as low as \$124.79 in March. The JSE Index rose 2.2% in the first three months of 2019, roughly similar to the 2.1% during the same period in 2018. The exchange rate volatility is likely to continue.

Outlook

During the quarter, SIL's portfolio benefited significantly from the rise in global asset prices (in USD terms). Additionally, the Investment Manager was able to purchase assets that had been unfairly beaten up due to one-off firm specific events.

The team continues to look for profitable fixed income or equity opportunities in the global and local markets.

FINANCIAL OVERVIEW

Increase in dividend paid 1Q19 over 1Q18	8.4%
Increase in interest income for period	4.1%
Total Assets	\$1.4 billion vs. \$1.2 billion in 2018
Book value per share	\$3.11 vs. \$2.89 in 2018*

*Adjusted for stock split

Income Statement

Interest income, SIL's primary source of income, totalled J\$21.8 million for the quarter ended March 2019; 4.1% higher than the amount of \$20.9 million recorded for the corresponding period in 2018. Net interest margin was 84.7%.

Due to the prevailing market conditions, SIL took the opportunity to purchase undervalued assets instead of selling assets. As a result, gains on sale of investments for the quarter ended March 2019 totalled \$381,000, a decrease from the gain of \$1.3 million recorded for the corresponding period in 2018.

The Jamaican dollar appreciated against the US dollar by J\$1.25 or 1.0% for the quarter ended March 2019, relative to the same period in 2018 when it depreciated by J\$0.98 or 0.78%. The company recorded unrealized foreign exchange losses for the three months ended March 2019 of J\$20.5 million compared to a gain of J\$9.6 million in March 2018. It is important to note that since the start of the second quarter there has been a complete reversal of this position and at the time of writing, there has been a sharp depreciation in the exchange rate. This unrealized loss of J\$20.5 million resulted in an overall net loss of J\$7.2 million for the quarter ended March 2019 compared to the net profit of J\$24.8 million recorded during the corresponding period in March 2018. The loss is a direct result of the portfolio's concentration in high quality USD investments and the increased volatility in the value of the Jamaican dollar. The company maintains that this focus on high quality USD investments is the best strategy to preserve and grow wealth for investors over the medium to long term. Other comprehensive income totalled J\$43.65 million, reflecting a significant improvement in asset prices during the quarter.

Operating expenses for the quarter ended March 2019 totalled J\$8.2 million or 28.3% higher than the J\$6.4 million of operating expenses recorded for the corresponding period in 2018.

Balance Sheet

Total equity increased by 25.3% from J\$853.3 million as at March 2018 to J\$1.1 billion as at March 2019. Total assets increased by 16.8% from J\$1.2 billion as at March 2018 to J\$1.4 billion as at March 2019. This reflects growth in investment securities which increased by 16.7% over the same period in 2018. This was funded by the proceeds of the rights issue held in January 2019. As at March 2019, margin loans totalled J\$326.6 million and represented 23.7% of the total portfolio of investment securities compared to 28.8% for March 2018.

During the quarter, a dividend payment of J\$22.5 million was made to ordinary shareholders on record as at March 5, 2019 and paid on March 20, 2019. This is an 8.4% increase over the payment made in March 2018, notwithstanding an increase in the number of shares.

Sterling Investments Ltd.

Balance Sheet
As at March 31, 2019

	Unaudited 3 months ended Mar-19	Unaudited 3 months ended Mar-18	Audited 12 months ended Dec-18
ASSETS			
Cash Resources			
Cash & Cash Equivalents	1,302,870	354,922	3,480,597
Accounts Receivable	46,924,945	40,516,133	43,568,581
Income Tax Recoverable	18,269	-	92,707
Investment Securities	1,376,284,213	1,179,136,490	1,161,747,542
TOTAL CURRENT ASSETS	1,424,530,297	1,220,007,545	1,208,889,427
TOTAL ASSETS	1,424,530,297	1,220,007,545	1,208,889,427
LIABILITIES			
Margin Loan Payables	326,559,112	339,720,599	336,229,212
Other Payables	5,679,928	5,447,654	9,612,829
Due to Related Company	22,781,494	21,523,956	17,497,550
Manager's Preference Shares	10,000	10,000	10,000
Income Tax Payable	-	-	-
TOTAL LIABILITIES	355,030,534	366,702,209	363,349,591
SHAREHOLDERS' NET EQUITY			
Share Capital	899,311,930	671,562,652	699,274,387
Prepaid Share Reserve	2,857,289	4,203,846	43,321
Fair Value Reserve	(6,523,980)	(7,528,344)	(57,387,192)
Retained Earnings	173,854,524	185,067,181	203,609,320
TOTAL EQUITY	1,069,499,763	853,305,336	845,539,836
TOTAL LIABILITIES & EQUITY	1,424,530,297	1,220,007,545	1,208,889,427

Sterling Investments Limited

Income Statement
For Period Ended March 31, 2019

	Unaudited 3 months ended Mar-19	Unaudited 3 months ended Mar-18	Audited 12 months ended Dec-18
Revenue:			
Interest Income	21,826,518	20,967,543	82,200,785
Foreign exchange gains/(loss)	(20,540,266)	9,552,755	23,005,258
Net gain on sale of debt investment securities at FVOCI	381,343	1,254,023	2,602,419
Net gain on sale of equity investment securities at FVTPL	-	-	2,637,457
	<u>1,667,595</u>	<u>31,774,322</u>	<u>110,445,919</u>
Expenses:			
Interest	(3,334,501)	(2,146,802)	(10,993,501)
Impairment (loss)/gain on financial instruments	2,494,900	2,194,530	(9,443,180)
Unrealised fair value gain/(loss) on equity investments securities at FVTPL	465,430	(334,844)	(4,142,723)
Other operating	(8,200,067)	(6,391,501)	(28,797,668)
	<u>(8,574,238)</u>	<u>(6,678,617)</u>	<u>(53,377,072)</u>
Operating Profit	(6,906,643)	25,095,705	57,068,847
Other Income	142,859	21,672	252,709
Manager's preference share interest expense	-	-	(3,049,900)
Profit before Income Tax	<u>(6,763,784)</u>	<u>25,117,377</u>	<u>54,271,656</u>
Income Tax Expense	(447,944)	(272,753)	(452,648)
Profit/(Loss) for Period	<u>(7,211,728)</u>	<u>24,844,624</u>	<u>53,819,008</u>
Other Comprehensive Income:			
Items that may be reclassified to profit & loss:			
Realised loss/(gains) on disposal of FVOCI debt investment (2017: available-for-sale securities) reclassified to profit or loss	(1,315,568)	(1,567,988)	4,660,724
Impairment loss on available-for-sale securities reclassified to profit for the year	-	-	-
Changes in fair value (of FVOCI debt investment securities)	52,178,780	24,531,338	(80,192,905)
	<u>43,651,485</u>	<u>47,807,974</u>	<u>(21,713,174)</u>
Shares outstanding	343,589,296	58,984,582	83,767,054
Earnings Per Share	(0.02)	0.42	0.64

Sterling Investments Limited
Statement of Cash Flows
For period ended March 31, 2019

	Period ended March 2019	Period ended March 2018	Audited Dec 2018
Cash flows from operating activities			
Profit for the period	(7,211,728)	24,844,624	53,819,008
Adjustments for :			
Interest Income	(21,826,518)	(20,967,543)	(82,200,785)
Interest Expense	3,334,501	2,146,802	10,993,501
Impairment loss on FVOCI	(2,494,900)	(2,194,530)	9,443,180
Unrealised loss on embedded derivative	-		-
Unrealised gain on quoted equities	(465,430)	334,844	4,142,723
Income Tax Expense	447,944	272,753	452,648
Managers Preference Share Interest	-	-	3,049,900
	(28,216,131)	4,436,950	(299,825)
Changes in operating assets:			
Accounts Receivable	487,316	6,453,940	(1,829,904)
Margins Payable	(9,670,100)	64,905,866	61,414,479
Other Payables	(3,932,902)	(1,239,821)	1,777,001
Due to Related Company	5,283,944	1,668,685	(2,357,721)
	(36,047,873)	76,225,620	58,704,029
Interest Received	17,982,839	16,459,551	82,917,024
Income Taxes Paid	(373,505)	(481,104)	(748,543)
Interest Paid	(3,334,501)	(2,146,802)	(10,993,501)
Net cash (used)/provided by operating activities	(21,773,040)	90,057,265	129,879,010
Cash flows from investing activity			
Investment securities, being net cash used by investing activity	(160,713,130)	(87,716,947)	(139,929,077)
Net cash (used)/provided by Investing activities	(160,713,130)	(87,716,947)	(139,929,077)
Cash flows from financing activities			
Issue of Preference shares			
Issue of ordinary shares	200,037,543	2,108,976	24,562,577
Prepaid Share Reserve	2,813,968	2,008,652	(2,151,873)
Manager's preference shares interest paid	-	-	(1,899,545)
Dividend payment	(22,543,068)	(20,799,518)	(21,676,989)
Net cash (used)/provided by financing activities	180,308,443	(16,681,890)	(1,165,830)
Increase/(Decrease) in cash and cash equivalents during the period	(2,177,727)	(14,341,572)	(11,215,897)
Cash and cash equivalent at the beginning of period	3,480,597	14,696,494	14,696,494
Cash and cash equivalent at the end of period	1,302,870	354,922	3,480,597

Sterling Investments Limited
Statement of Changes in Equity
For period ended March 31, 2019

	Share capital	Prepaid Share Reserve	Fair value	Retained earnings	Total
Balance at December 31, 2018	699,274,387	43,321	(57,387,192)	203,609,320	845,539,836
Comprehensive income:					
Profit for period	-	-	-	(7,211,728)	(7,211,728)
Other comprehensive income:					
Realised gain on disposal of available-for-sale securities reclassified to profit for the year			(1,315,568)		(1,315,568)
Impairment loss on AFS securities reclassified to profit	-	-	(2,494,900)	-	(2,494,900)
Unrealised gains in fair value of available-for-sale securities	-	-	54,673,680	-	54,673,680
Total comprehensive income	699,274,387	43,321	(6,523,980)	196,397,592	889,191,320
Transactions with owners:					
Share issued during the period	200,037,543	-	-	-	200,037,543
Prepaid share reserve		2,813,968			2,813,968
Dividends	-	-	-	(22,543,068)	(22,543,068)
	200,037,543	2,813,968	-	(22,543,068)	180,308,443
Balance at March 31, 2019	899,311,930	2,857,289	(6,523,980)	173,854,524	1,069,499,763
	Share capital	Prepaid Share Reserve	Fair value	Retained earnings	Total
Balance at December 31, 2017	669,453,676	2,195,194	(30,491,694)	225,362,118	866,519,294
Adjustment on initial application of IFRS 9, net of tax			-	(44,340,043)	(44,340,043)
Adjusted balance as at January 1, 2018	669,453,676	2,195,194	(30,491,694)	181,022,075	822,179,251
Comprehensive income:					
Profit for period	-	-	-	24,844,624	24,844,624
Other comprehensive income:					
Realised gain on disposal of available-for-sale securities reclassified to profit for the year			(1,567,988)		(1,567,988)
Impairment loss on AFS securities reclassified to profit	-	-	(2,194,530)	-	(2,194,530)
Unrealised change in fair value of available-for-sale securities	-	-	26,725,869	-	26,725,869
Total comprehensive income	669,453,676	2,195,194	(7,528,343)	205,866,699	869,987,226
Transactions with owners:					
Share issued during the period	2,108,976	-	-	-	2,108,976
Prepaid share reserve		2,008,652			2,008,652
Dividends	-	-	-	(20,799,518)	(20,799,518)
	2,108,976	2,008,652	-	(20,799,518)	(16,681,890)
Balance at March 31, 2018	671,562,652	4,203,846	(7,528,343)	185,067,181	853,305,336

NOTES TO FINANCIAL STATEMENTS

1. Identification

Sterling Investments Limited (“the Company”) was incorporated on August 21, 2012 in St. Lucia under the International Business Companies Act, and commenced operations on December 1, 2012. The Company’s registered office is located at 20 Micoud Street, Castries, St. Lucia. The principal activities of the Company are holding and trading of tradable and other securities and other investments.

2. Basis of preparation

These interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* and should be read in conjunction with the Company’s last annual financial statements as at and for the year ended December 31, 2018 (‘last annual financial statements’). They do not include all of the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the company’s financial position and performance since the last annual financial statements.

These interim financial statements are presented in Jamaican dollars, which is the Company’s functional currency.

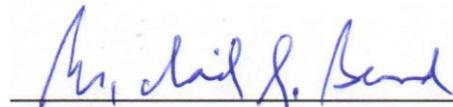
3. Use of judgements and estimates

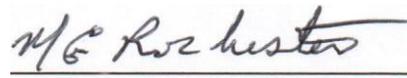
In preparing these interim financial statements, management has made judgements and estimates that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgements made by management in applying the Company’s accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements.

4. Significant accounting policies

The accounting policies applied in these interim financial statements are the same as those applied in the Company’s financial statements as at and for the year ended December 31, 2018 which was prepared in accordance with International Financial Reporting Standards (IFRS).


Director


Director

Top Ten Shareholders as at March 31, 2019

Name	Number of shares	Percentage
ATL Group Pension Fund Trustees Nominee Limited	47,856,608.	12.8%
GraceKennedy Pension Fund Custodian Ltd for GraceKennedy Pension Scheme	34,848,550.	9.3%
Lloyd Badal	29,384,597.	7.9%
Pam - Pooled Equity Fund	22,025,175.	5.9%
Cable and Wireless Jamaica Pension Fund	14,492,015.	3.9%
Everton Lloyd Mcdonald	13,331,584.	3.6%
Charles A. Ross	11,297,515.	3.0%
Satyanarayana Parvataneni	10,601,480.	2.8%
National Insurance Fund	10,080,645.	2.7%
JNBS Pension Trustees Nominee Ltd.	8,912,355.	2.4%

Shareholdings of Directors as at March 31, 2019

Directors	Number of shares	Percentage of Total
Derek Jones		
Maxim Rochester		
Michael Bernard		
Charles Ross	11,297,515	3.0%